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THE FOOD MARKETING INDUSTRY

1986

FMI

THE FOOD MARKETING INDUSTRY SPEAKS 1986

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The Food Marketing Institute (FMI) is a non-profit association that conducts programs in research, education and public affairs on behalf of its 1,500 members – food retailers and wholesalers and their customers. FMI's domestic member companies operate more than 17,000 retail food stores with a combined annual sales volume of $150 billion – half of all grocery sales in the United States. More than three-fourths of the FMI membership is composed of independent supermarket operators or small regional firms. Its international membership includes more than 150 members from 40 nations.

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THE FOOD MARKET *1986*

Retail Sales Gain Over Previous Year	**5.0%**
Whosesale Sales Gain Over Previous Year	**8.0%**
Weekly Sales Per Square Foot	**$8.43**
Sales Per Customer Transaction	**$16.33**
Sales Per Labor Hour	**$88.00**
Gross Margin With Warehouse	**24.0%**
Gross Margin Without Warehouse	**22.3%**
Net Profit (before taxes)	**1.8%**
Weekly Store Sales	**$206,543**

THE FOOD MARKETING INDUSTRY SPEAKS

The 1985 U.S. economy offered a mixed message. Growth was robust, continuing the trend from 1984, and inflation rose only 3.6 percent compared to an already low increase of 4.3 percent for 1984. Business investment increased to $380 billion, fueled by lower interest rates. The prime rate dropped to under 10 percent, almost half of the 1981 rate. Consumers saw an increase in their disposable income to over $11,000. At the same time, unemployment dropped to 7.2 percent.

Yet amid these optimistic returns, some darker signs appeared on the horizon. In 1985, the U.S. became a debtor nation for the first time since 1914 with the trade deficit reaching $148 billion and the federal deficit hitting $212 billion. The farm sector continued to face trying conditions.

The supermarket industry reflected the general economic trends. Growth in retail sales slowed to 5 percent in current dollars and stabilized at 3.6 percent in real dollars. In contrast, gross margins stabilized at 24 percent for companies without warehouses. Net profits also rose slightly to 1.8 percent in 1985 along with a small increase in weekly sales per square foot.

The Food Marketing Industry Speaks, 1986 report examines all of the interdependent parts of the industry that puts food on the tables of America: The food producer, the manufacturer, the wholesaler, and the retailer. It begins with a review of the economy in general, followed by an in-depth look at those aspects which directly affect the industry. It covers sales and profit trends, and provides a detailed look at several special interest areas.

The general merchandise/health and beauty aids department in retail stores is highlighted this year. The report also examines in detail the meat department, general merchandise, electronic funds transfer, and productivity by store type.

Much of the data are compiled through FMI's annual surveys of the industry. FMI gratefully acknowledges all those companies who have contributed their time and effort to fill out the questionnaires. A detailed explanation of the study is provided in the appendix.

Industry information is also drawn from other FMI research reports such as *Operations Review* and *Facts About Store Development*. The Institute would also like to acknowledge data gathered from the U.S. Departments of Agriculture and Commerce, and other government publications.

While this report contains the complete analysis for 1985, it does not include the detailed tabulations of survey data from which this analysis was developed. This information, providing a more thorough look at industry activity, is contained in a separate, supplemental report entitled *Detailed Tabulations from the Food Marketing Industry Speaks, 1986*. Another publication, *Trends-Consumer Attitudes and the Supermarket, 1986*, parallels *Speaks* by presenting the state of the industry from the consumer side. *Trends* explores consumer attitudes toward the economy and the supermarket, and analyzes changes in consumer concerns and shopping patterns.

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THE ECONOMIC SETTING

The Economic Climate

For the most part, the positive economic news of 1984 continued through 1985 with only a few major setbacks. Nineteen eighty-five brought the country into the third year of economic expansion. If this expansion continues as predicted, by the fall of 1986 it will be the second longest peacetime recovery in American history.

Many of the major economic growth indicators showed positive changes in 1985. Inflation, measured as the percent change in the Consumer Price Index (CPI), rose only 3.6 percent in 1985; lower than the 1984 figure of 4.3 percent but not quite down to the 1983 increase of 3.2 percent. The food-at-home and food-away-from-home portions of the CPI showed smaller increases in 1985 than in 1984, at 1.4 percent and 4 percent respectively, down from 3.7 percent and 4.2 percent in 1984.

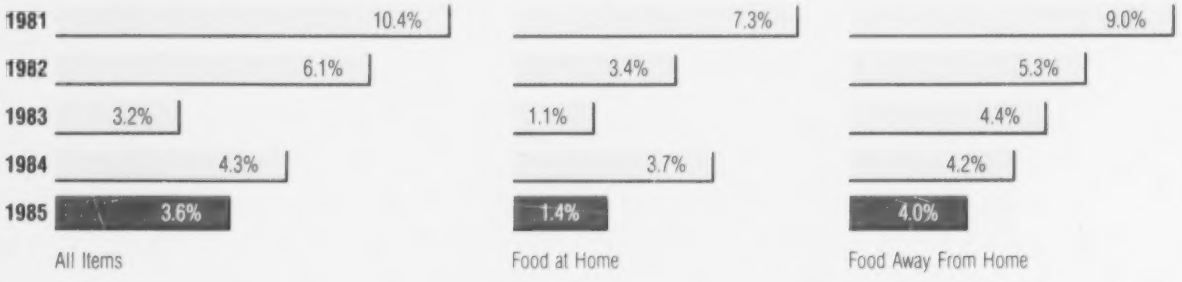
Along with the slowed consumer price increases, lower interest rates, a decrease in the unemployment rate and a continued growth of disposable income, there was an increase in total U.S. retail sales to $1,374 billion in 1985, up from $1,293 billion in 1984. Industrial investments also jumped from $352.88 billion in 1984 to $379.42 billion in 1985. In current dollars, business investments went from $354.44 billion to $386.41 billion. Additional positive economic news in 1985 included affordable interest rates for corporate customers and mortgage loans. The prime interest rate, the rate banks give their best corporate clients, fell more than two percentage points from 12.04 percent in 1984 to 9.93 percent in 1985, almost half of the 18.87 percentage mark of five years ago. Along with the drop in the prime rate came a substantial decrease in mortgage rates from an all time high of 15.1 percent in 1982 to 9.5 percent in July, 1985, for a year-long average of 10.8 percent.

Civilian unemployment fell to a six year low in 1985, with an average of 7.2 percent for the year. The unemployment rate has shown a steady decrease since the height of the recession in 1982. In 1982 it peaked at 9.7 percent, in 1983 it dropped to 9.6 percent, and fell again in 1984 to 7.4 percent.

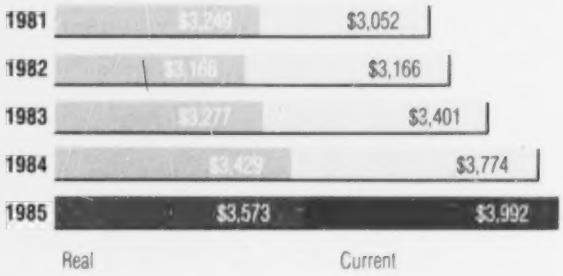
Disposable income, the income remaining after paying personal taxes, grew to $11,727 in current dollars and $10,504 in deflated dollars in 1985. For the food industry, this is significant, because not only did disposable income continue to grow in 1985, but the percent of disposable income spent on food also increased. In fact, from 1981 to the present, the percent of disposable income spent on food has remained steady, from 14.9 in 1981 to 15 percent in 1985.

The negative aspects of the 1985 economic picture included a record breaking trade deficit and an oil price slide which hurt many of the southern states. In 1985, the U.S. Federal budget deficit skyrocketed to an all time high of $212 billion along with a record trade deficit of $148 billion. These deficit highs made the U.S. a debtor nation for the first time since 1914.

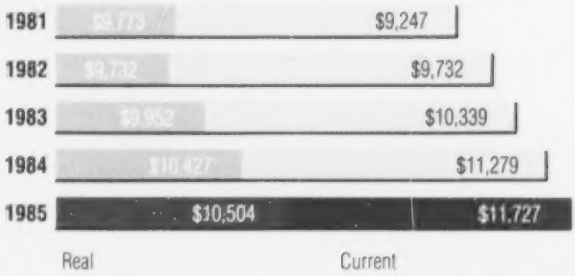
Consumer Price Index



Gross National Product (Billions) (1982 dollars)



Per Capita Disposable Income (1982 dollars)



Although consumers cheered plummeting gasoline and oil prices, the oil states, including Oklahoma, Texas, and Louisiana, slid into economic straits. On April Fools Day, 1985, spot oil prices dipped below $10 a barrel, a twelve year low.

Food Production

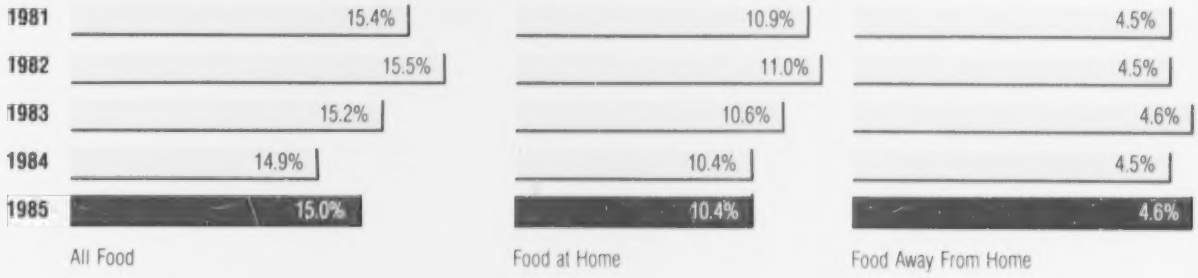
The farm community had another difficult year in 1985. Farm exports declined to $31.2 billion from the 1981 peak. In addition, net farm income dropped from $34 billion in 1984 to between $25 and $29 billion in 1985. Individual crop production varied with environmental and political factors.

Both corn and milk set production records in 1985. Corn production jumped from 7,656 million bushels in 1984 to 8,865 million bushels in 1985. More milk per cow and three percent more cows raised milk production to 143.7 billion pounds in 1985.

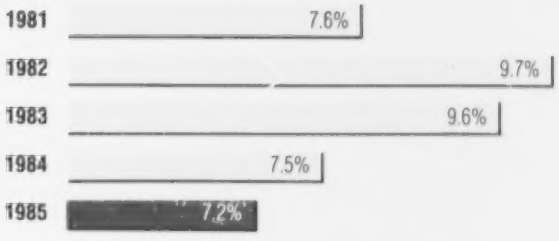
Coffee production also increased in 1985, climbing from 11.95 billion pounds in 1984 to 13.05 billion pounds. Nineteen eighty-five showed a decline in wheat production due to many negative factors including a difficult planting season, crop switching, and reaction to two years of declining wheat prices.

Meat production for 1985 followed customer preferences. Poultry production increased from 15.6 billion pounds in 1984 to 16.5 in 1985, an increase attributable to stable production costs and the decrease in the output of red meat. Beef production did increase slightly in 1985 due to a four to five percent rise in slaughter weights, even though the number of cattle at slaughter was down before the government approved milk cow slaughter. Pork production remained constant from 1984 to 1985.

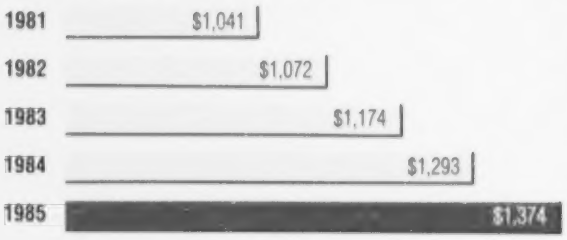
Percent Of Disposable Income Spent On Food



Civilian Unemployment



Total Retail Sales (billion)



Sales Increase Over 1984 By Quarters

	1st	2nd	3rd	4th
All retail stores	4.6%	6.8%	8.9%	5.3%
Grocery Stores	4.2%	4.4%	4.5%	5.3%
Restaurants	5.1%	7.3%	4.9%	5.7%

DISTRIBUTION CENTERS

Distribution centers are a major part of the link between producer and consumer. They are owned either by wholesalers who use them to distribute goods primarily to retail stores, or by retail companies, to keep their inventory in a central location for distribution to individual stores as needed.

Dry Grocery Distribution Centers

In creating a profile of a typical dry grocery distribution center the following characteristics were found:

- The centers averaged 250,000 square feet: Retail centers were 258,000 square feet with wholesaler centers typically smaller at 240,000 square feet.
- Each dry grocery center served 87 supermarkets.
- The dry grocery centers employed 100 people who shipped 182,905 cases per week.
- Each center carried 6,000 items with an annual inventory turnover rate of 15.
- While each dry grocery center received 178 inbound loads per week, each sent out 180 loads during that same period of time.
- One hundred sixty-two cases were selected per direct labor hour in 1985.

General Merchandise/ Health and Beauty Aid

General merchandise/health and beauty aid (GM/HaBA) distribution centers are typically much smaller than their dry grocery center counterparts. The median size for a

GM/HaBA center measured 44,950 square feet in 1985. The retail GM/HaBA center was typically 60,000 square feet and the wholesale centers were 31,500 square feet.

A profile of the typical GM/HaBA center shows the following:

- Items were almost equally selected from shelving (50.0 percent) and from flow racks (48.3 percent).
- There were typically 21 employees per center, with a range from 3 to 83 employees.
- GM/HaBA centers typically served 84 supermarkets and offered 3,663 items.
- Inbound truck loads totaled 41 per week, whereas there were typically 32 outbound loads per week.
- Nine hundred eighty units were received per direct labor hour with 482 units being stored and replenished per direct labor hour.

Number Of Shifts Operated Per Week In Distribution Centers

	All Centers	Wholesale Centers	Retail Centers
Dry Grocery			
5-7	17.4%	6.9%	27.8%
8-14	47.9%	48.6%	47.2%
15-20	27.1%	36.1%	18.1%
21 +	7.6%	8.3%	6.9%
GM/HaBA			
4	4.7%	5.1%	4.0%
5-7	53.7%	54.0%	48.0%
8-14	28.1%	28.2%	28.0%
15-20	7.8%	5.1%	12.0%
21 +	4.7%	2.6%	8.0%

Percent of Companies Reporting Methods Used In Dry Grocery Distribution Centers

Receiving	
Count each case	91.9%
Count selected supplier	4.7%
Sample supplier pallets	7.0%
Other	2.3%
Put Away	
Fork lift to reserve lot	83.7%
Pallet jack to aisle	44.2%
Other	3.5%
Replenishment	
Zone patrol	66.3%
Work list or cards	33.7%
Other	16.3%
Selection	
Order list	15.1%
Labels	43.0%
Other	3.5%

THE INDUSTRY

Wholesaling

Wholesaling is the important middle step between producer and retailer, both for goods and services.

After a drop during the early part of the last recession (1981 and 1982), wholesale sales have grown steadily for the past four years. In 1985, sales grew 8 percent in current dollars up from a 6.8 percent increase in 1984. In real dollars sales jumped from 3 percent in 1984 to 6.5 percent in 1985.

Wholesalers offer more than just goods. Eighty percent of the wholesalers told us that they offer half of all the retail services shown on a list of services provided. The services offered to retailers most often were an advertising program, product management and individual retail pricing.

Retailing

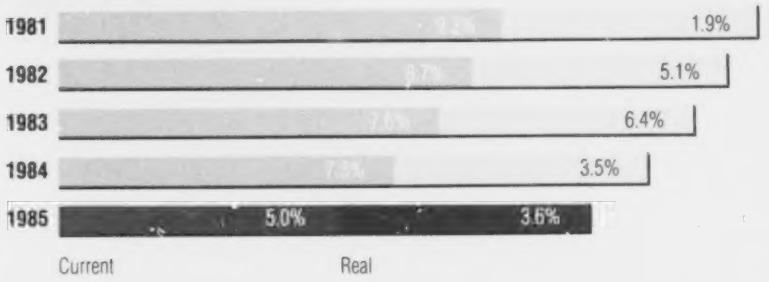
The retail supermarket is the industry's direct link to the consumer. In 1985 retail sales growth continued to slow in current dollars. For all stores, growth went from 7.3 percent in 1984 to 5 percent in 1985. For identical stores, those in operation for all of 1984 and 1985, the growth slowdown was just as prominent, falling from 5.6 percent to 3.6 percent.

In real dollars (which exclude inflationary effects), the rate of sales has fluctuated along with the economy. It reached a high of 6.4 percent in 1983, declined to 3.5 percent in 1984 and rebounded somewhat to 3.6 percent in 1985. Sales also increased slightly for identical stores in 1985—from 1.8 percent to 2.0 percent.

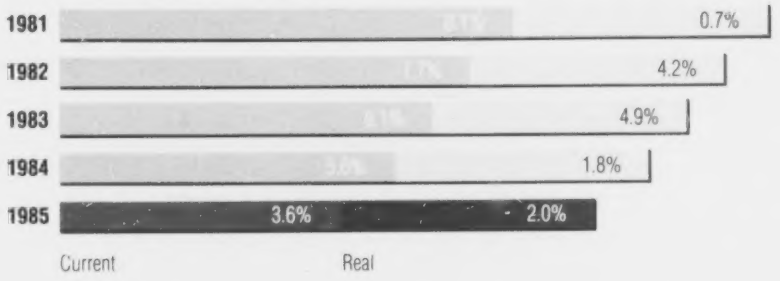
National retail sales for 1985 were down from last year. The 4.6 percent gain for the first quarter was much lower than the 14.6 percent gain for the first quarter of 1984. The 6.8 percent increase for the second quarter was little more than half of the 12.1 percent increase for the same period last year. The figures for the third and fourth quarters are fairly consistent with 1984.

The slow increase in restaurant sales has continued the trend indicated in last year's report. Restaurant sales declined from the 1983 double digit numbers to 9.1 percent in the first quarter of 1984 and below 7 percent in the second quarter. They have remained between 4.5 percent and 7.5 percent since that time.

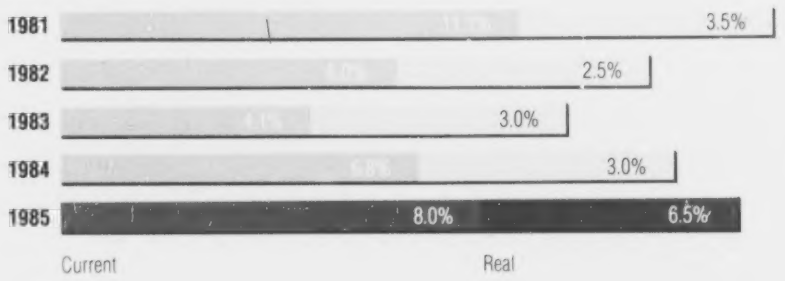
Retail Sales Increase



Identical Stores Sales Increase



Wholesale Sales Increase



Services Provided To Membership

Advertising program	87.8%
Product Management	87.8%
Individual Retail Pricing	85.4%
Real Estate & Store Engineering	82.9%
Equipment Procurement	82.9%
Gross margin Report/Item	82.9%
Handle Private Label	82.9%
Handle Generic Label	80.9%
Scanning Support	80.5%
Education/Training	78.0%
Retail Accounting	75.6%
Interior Decor & Design	73.2%
Member Payrool	68.3%
Equipment & Fixture Finance	68.3%
DSD System	68.3%
Lease Financing	65.9%
Space Allocation	61.0%
Discount Progress	56.1%

COMPANY PERFORMANCE

Gross Profit Margin

Gross profit margins, total sales minus the cost of goods sold, were fairly stable in 1985. For companies with their own warehouse, gross profit was 24 percent. Those without their own warehouse experienced a slight increase in profits from 21.6 percent in 1984 to 22.3 percent in 1985.

Net Profit Margin

Net profit before taxes increased again in 1985. Net profit, which is calculated by dividing gross profit by net sales was 1.8 percent in 1985, up from 1.6 percent in 1984. In 1985 the second and third quarters were the most profitable.

Productivity

In 1985, the typical customer spent $16.33 per supermarket outing, slightly over 14 percent more than the 1981 figure of $14.23. During these last five years, the average price per item rose from $1.19 to $1.31. Between 1984 and 1985, weekly sales rose from $175,900 to $206,543, despite the price per item remaining relatively stable at $1.31 during that time.

Productivity gains from 1984 to 1985 can be summarized as follows:

- The number of items carried per store rose from 15,379 in 1984 to 17,459 in 1985.
- Sales per square foot of selling area increased in current dollars from $8.00 to $8.43 and in real dollars from $2.73 to $2.84.
- In 1984, sales per customer transaction was $15.36; in 1985 it was $16.33.
- Weekly sales per checkout unit were $25,818, up from $22,253. This is an increase from $7,600 to $8,700 in real dollars.

More items have raised sales per square foot from $7.09 in 1981 to $8.43 in current dollars which translates into a slight gain in real dollars from $2.50 to $2.84.

The purchase of more and more non-food items at the supermarket is partly responsible—some 22 percent of supermarket purchases are now non-food items, according to the Census Bureau. A greater emphasis on time-saving techniques also contributed to the increase.

However, sales per labor hour did show a slight decline, from an average of $90.85 to $88.00 in 1985. In deflated terms, sales per labor hour declined from $31.04 in 1984 to $29.65 in 1985.

With respect to productivity by store format, combination stores led in two productivity categories—weekly sales per checkout unit, ($27,003), and typical weekly sales per store ($270,026) and also led in the number of items per store with 32,750.

Warehouse stores led in sales per customer transaction at $22.00 followed by combination stores at $17.31 and super stores at $16.31. For conventional stores, the typical sale per customer transaction was $14.00.

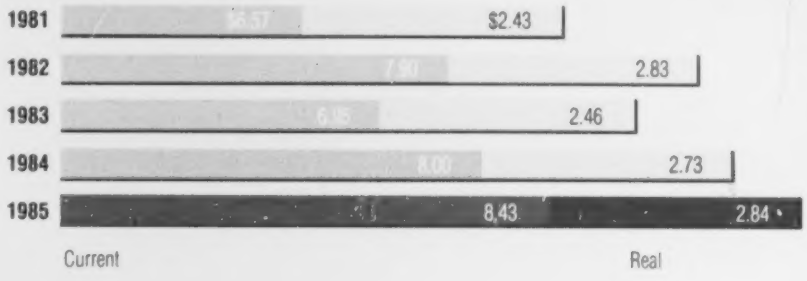
Sales per labor hour was much higher for warehouse stores at $135.03 than any other store type. Combination stores reported $88.76, super stores $87.50 and conventional supermarkets $85.00.

Along with the highest sales per labor hour, warehouse stores also

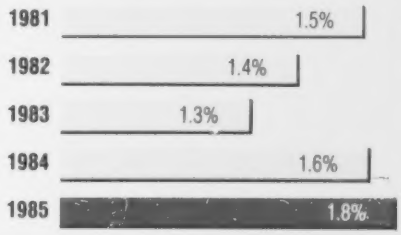
turned in the lowest retail price per item at $1.13. Conventional stores typically charged $1.30 per item, super stores charged $1.32, and combination stores charged $1.35.

Super stores, conventional stores and combination stores all experienced sales per square foot between $8.40 and $8.67. Warehouse stores lagged behind with $5.90 sales per square foot.

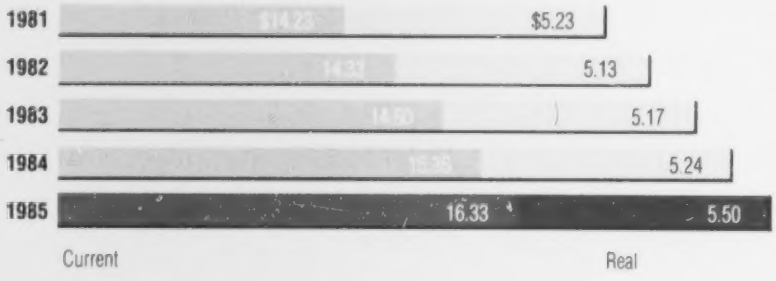
Sales Per Square Foot



Net Profit Margin



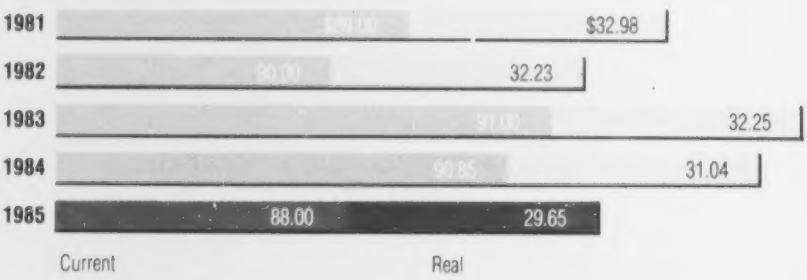
Sales Per Customer Transaction



Weekly Sales

combination	$270,026
superstore	$230,000
warehouse	$150,000
conventional	$137,983

Sales Per Labor Hour



Weekly Sales Per Checkout

combination	$27,003
warehouse	$25,497
superstore	$24,240
conventional	$19,300

Number Of Items

combination	32,750
superstore	22,500
conventional	13,800
warehouse	10,000

Sales Per Labor Hour

warehouse	$135.03
combination	$88.76
superstore	$87.50
conventional	$85.00

Sales Per Square Foot

superstore	$8.67
conventional	$8.48
combination	$8.40
warehouse	$5.90

Sale Per Customer Transaction

warehouse	$22.00
combination	$17.31
superstore	$16.31
conventional	$14.00

Retail Price Per Item

warehouse	$1.13
conventional	$1.30
superstore	$1.32
combination	$1.35

OPERATIONS

Meat Department

As consumers' preferences change, so has the mix of products in the meat department. Beef sales declined from 39.3 percent of all meat sales to 37.6 percent, processed and frozen sales fell from 21.1 percent to 16.6 percent, and lamb declined just slightly from 1.9 percent to 1.7 percent.

On the up side, poultry went from 18.0 percent to 19.2 percent of all meat sales; fish and seafood increased from 2.9 percent to 4.3 percent; and pork accounted for 15.3 percent of all meat sales, up from 12.9 percent. Veal sales have remained at 1.4 percent for the past two years.

In 1985, the typical meat department had the following features:

- It took up 10 percent of a store's selling area and accounted for 18 percent of the company's sales.
- Five employees worked in the store's meat department.
- Wages, salaries and fringe benefits accounted for 8 percent of meat department sales.
- There were 150 fresh meat items.

USDA choice beef accounted for the vast majority (75.9 percent) of fresh beef sales. Almost 23 percent was ungraded or house brand and under one percent of all beef sales were graded prime or good. Fresh beef is almost always received at the supermarket as either subprimals (53 percent) or primals (43.2 percent). Only 2.4 percent was received as carcass and 1.4 percent as retail cuts.

Retailers seem to be moving toward meat supplied by packer direct deliveries which rose from 14.4 percent in 1984 to 21.1 percent in 1985. The amount of meat supplied from company-owned warehouses or processing plants fell from 69.6 percent to 62.5 percent. The remaining 16.4 percent of meat was supplied by wholesaler direct delivery.

As retailers strive to increase meat sales, they often turn to product-related services to attract customers. In the meat department, the services companies offered were: meat recipes (81.9 percent of stores); nutrition information (61.9 percent); store coupons (60.4 percent); and meat cutting (58.1 percent).

General Merchandise, Health and Beauty Aids

Supermarket owners are seeking to fill the "one-stop" shopping needs of their customers by expanding their food and non-food sections. General merchandise and health and beauty aids are two popular departments capable of fulfilling these extra needs. Almost 90 percent of all stores operate both such departments.

When asked why they operate a general merchandise department,

88.1 percent said it was to "offer more one-stop shopping"; this was followed by to "increase average gross margin," 83.9 percent; and 83.2 percent to "increase dollar profits."

The most frequently carried general merchandise products in 1985 were pet supplies, housewares, magazines and stationery. In the health and beauty aid department the most often carried products included shampoos, dental products, deodorants, and shaving items.

Slightly over two-thirds (67.8 percent) of the companies stated that housewares/kitchen items experienced the greatest sales growth in 1985 in the general merchandise department. These were followed by video rentals (56.4 percent) and film/film supplies (46.8 percent).

In the health and beauty aids department over three-fourths (78.1 percent) indicated that dental items had the greatest sales growth. Cold pain remedies followed at 52 percent with hair care products at 46.8 percent, vitamins at 36.2 percent, and eye care products at 24.9 percent, rounding out the top five sales leaders.

Because of the popularity of VCR's, over one-fifth of the companies (21.8 percent) plan on adding video rentals/supplies in the future. Furthermore, almost one-quarter of the companies want to capitalize on the growth in houseware items by increasing the number of those items.

In their health and beauty aid departments, 29.3 percent of the companies surveyed plan on adding over-the-counter (OTC) health care items, reflecting the health concerns of the American consumer. Second to OTC items for planned addition in these departments are ethnic products (8.1 percent), followed by cosmetics (7.1 percent) and vitamins (2.6 percent).

The typical general merchandise section:

- Took up 16 percent of the selling area,
- Carried 7,000 items, and
- Required nine labor hours per week

The typical health and beauty aid section:

- Occupied ten percent of the selling area,
- Carried 1,900 items, and
- Required 60 hours per week to staff

Automated Teller Machines/Electronic Funds Transfer

Automated teller machines (ATMs) are yet another facet of the overall storewide move towards "one-stop" convenience. As seen in the survey, it is this aspect of ATMs, not any particular savings to stores, which underlies their increasing prevalence. When retailers rated the machines on a scale of 1 to 5, with 5 indicating excellent, "ease of use" and "customer convenience" both received the highest ratings of 4 while store savings received the lowest ranking of 2.1.

Almost one-third (30.5) percent of all companies operated ATMs in 1985, reporting that 15.9 percent of all of their stores have ATMs. Twelve percent of all companies operate non-ATM electronic devices, which they have in 5.7 percent of their stores.

Companies that do not own their ATMs were most often compensated by the owners with a space and transaction fee (49 percent). More than 27 percent were compensated with just a transaction fee, 10.3 percent received a space rental fee and 12.9 percent by some other arrangement.

Cash dispensing was, at 79.4 percent of the transactions, overwhelmingly the most popular use for ATMs. Just over 13 percent of all transactions were balance inquiries, 4.3 percent were deposit taking and 1.3 percent were balance transfers.

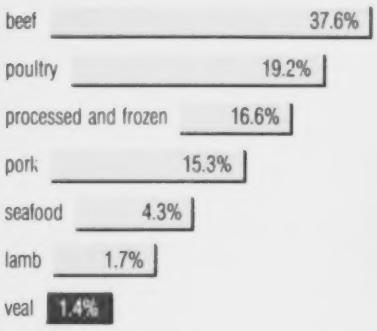
In terms of future growth, it was found that one quarter of the companies without ATMs plan to add them within the next two years, and 10.8 percent expect to install non-ATM electronic financial services. More than 43 percent expect to install these ATMs within the next five years, and 29.1 percent intend to add non-ATM electronic financial services during the same period.

Only 3.3 percent of all companies operate EFT-POS direct debit at the checkout which is cleared through a network. Even a smaller percentage (1.2 percent) offer EFT-POS which is cleared through an automated clearinghouse.

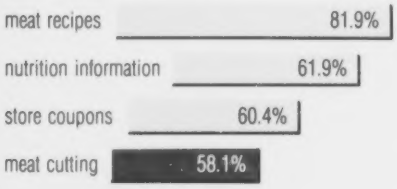
Ratings Of ATM

ease of use	4.0
customer convenience	4.0
overall performance	3.8
maintenance	3.8
hardware reliability	3.7
customer acceptance	3.6
customer useage	3.2
store savings	2.1

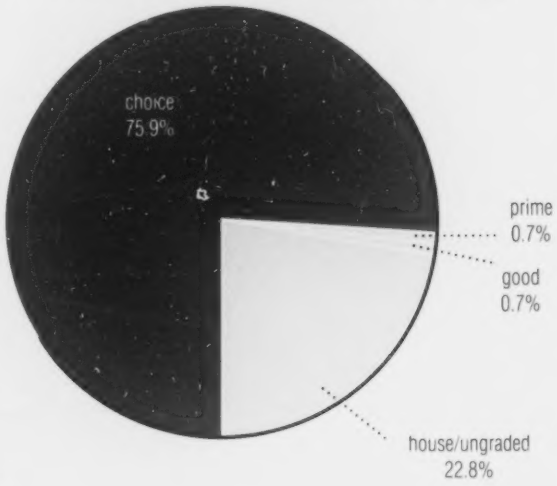
Mix Of Sales



Services Offered



Percentage Of Fresh Beef By USDA Type



GM Items With Greatest Sales Growth

housewares	67.8%
video rental	56.4%
film/film supplies	46.8%

Top Reasons For Carrying GM

offer more one-stop shopping	88.1%
increase average gross margin	83.9%
increase dollar profit	83.2%

HaBA Items Stores Carry

shampoos, dental products, deodorants, shaving items	99.9%
analegsics	99.8%
cold medicines	98.6%
hair conditioners	98.3%
mouthwashes	98.0%
vitamins	97.9%

HaBA Items With The Greatest Sales Growth

dental items	78.1%
cold remedies	52.0%
hair care products	46.8%
vitamins	36.2%
eye care	24.9%

GM Items Stores Carry

pet supplies	99.6%
housewares	98.4%
magazines	96.7%
stationary	94.9%
books	84.0%
automotive supplies	82.1%
greeting cards	74.1%
toys	62.5%

TECHNOLOGICAL DEVELOPMENTS

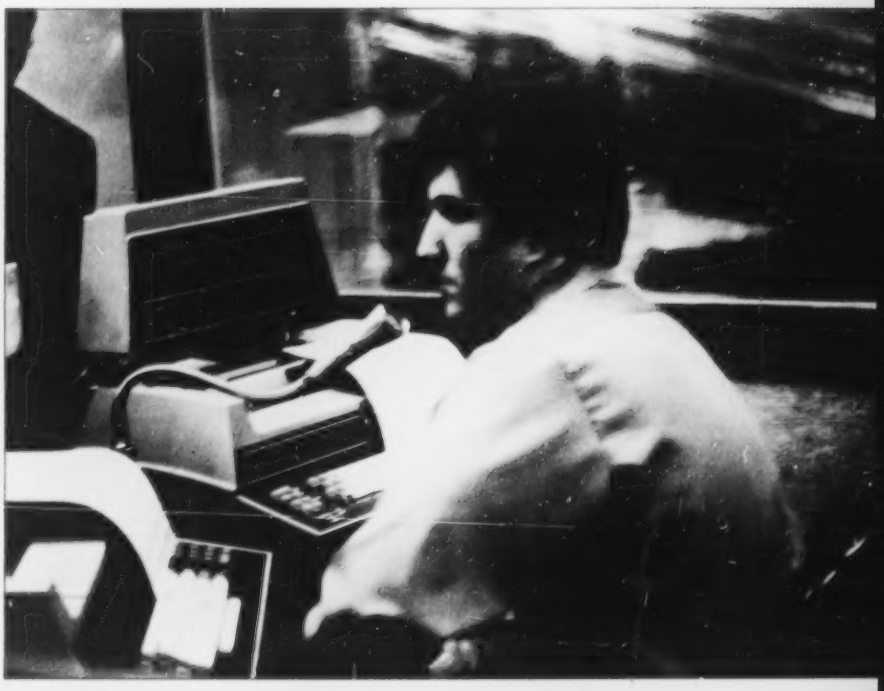
The supermarket industry has a long history of joint industry projects aimed at improving the technological system. In 1985 a number of these key projects which will have long lasting effects on the industry were either completed or in progress.

As the implementation of direct-store delivery (DSD) control systems has spread, the diversity of DSD operations and technologies has grown commensurately. An industry task force is evaluating current store-door practices and technologies, and identifying opportunities for communication standards. The DSD/UCS study will begin with a review of current technologies and operations, to be followed by an evaluation of new technologies and trends affecting DSD.

A joint industry task force was created to study issues in shipping container design, with emphasis on the following topics: Improvement of the dry grocery system through shipping container design, identification of the most damage prone products, examination of compliance with voluntary guidelines, and development of packaging recommendations.

Several of the task force's recommendations call for immediate action. First among these is the suggestion that both manufacturers and distributors examine their products for compliance with industry guidelines. Also suggested is that distributors collect data on causes of damage for the most damage prone products. Distributors should then establish training programs which emphasize proper material handling techniques.

The task force also recommended that, in the near future, the industry establish three more task forces. The first of these will be created to study standardization of shipping containers for products in like retail packs. Another will be responsible for developing improvements in bag design and/or bag unit load design. The final group will review these preliminary performance standards for shipping containers and make recommendations to the industry.



Direct Product Profit (DPP), a management support system which measures an individual product's actual profit contribution, is growing in popularity. The increase in computer sophistication and data base usage encouraged food distributors to begin looking at using DPP as a replacement for gross margin as a quantifier for distribution center and store efficiencies.

Companies are finding that DPP and its applications enable them to identify expense and income factors and make rational decisions effecting their costs and profits. In order to help provide a retailer-based DPP model, FMI coordinated the development of a Unified method with the assistance of all areas of the food manufacturing and distribution community. The Unified Direct Product Profit (DPP) Model has been completed for dry grocery, frozen and refrigerated products. Currently under development are new or additional documentation for: shrink, coupons, frozen/dairy, display, repack, cigarettes, and beverage/returns.

STORE DEVELOPMENT

Store Activity

Last year's store developments encompassed a wide variety of activity. Almost 20 percent of all supermarkets were either newly opened, closed, acquired, or remodeled. The majority of this activity was in the form of remodelings, followed by closings, new construction, and acquisitions. In 1985, retailers reported less new store construction and store closings but double the rate of major remodelings.

Of all stores in operation as of December 31, 1985, 53.9 percent were conventional stores. Super stores accounted for more than 32 percent of all stores, 9.1 percent were combination stores and 3.7 percent were warehouse. Typically, these supermarkets were remodeled 6.7 years ago. More than 78 percent of all supermarkets were leased—70.8 percent from an outside company and 8 percent from a subsidiary or parent company.

New Stores

New store size along with the cost of building a new supermarket continued to grow in 1985. A new store was typically 40,000 square feet in 1985, up slightly from the 1984 median size of 39,600 square feet. The selling area in new stores was generally 28,000 square feet or approximately 70 percent of the total store area. For new stores, the most popular store format was the super store which accounted for 49.2 percent of all these new stores.

Construction usually cost the supermarket owner about $60.00 per square foot. These costs break down to $30.70 per square foot for the building and $29.00 per square foot for equipment, fixtures and decorations. An additional cost for new store owners is the cost of opening inventory, for which the median cost was $600,000 in 1985. For smaller stores, opening inventory was $285,000 and for larger stores it cost $950,000.

The minimum cost for renting a new store typically ran $5.86 per square foot per year. Overages were 0.8 percent of sales, bringing the total rent to $6.20 per square foot.

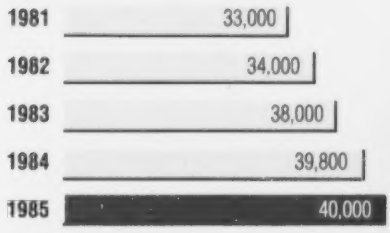
Store Closings

More than four percent of all supermarkets were closed in 1985. This figure is down from the 1984 figure of 6.9 percent and is almost equal to the 1983 closings of 4.3 percent. Of all of the supermarkets closed in 1985, more than two-thirds were conventional stores, one-quarter were super stores, and the remaining 8.4 percent were either combination stores, warehouse stores or other types.

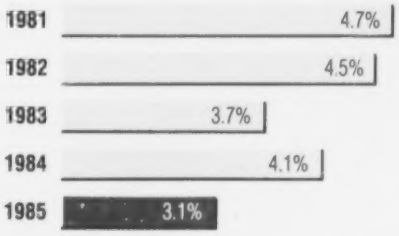
Remodelings

Remodelings typically cost $17.00 per square foot in 1985. For smaller companies the cost was $6.95 per square foot; for larger companies the cost typically totalled $21.00 per square foot. The typical major remodeling cost $400,000, down from $500,000 in 1984.

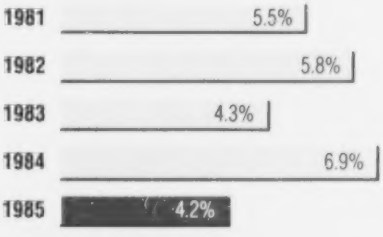
New Store Total Areas



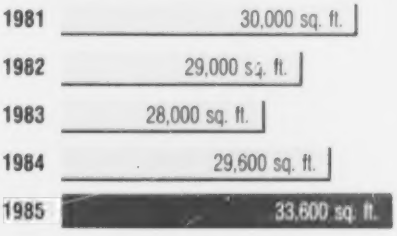
New Store Openings



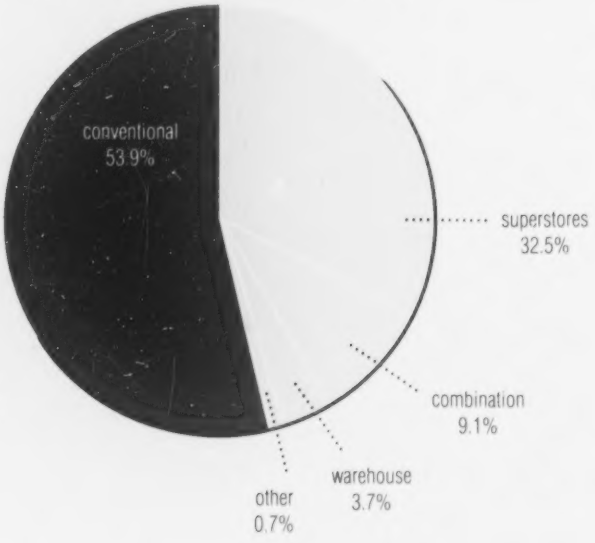
Store Closings



Total Store Size



All Stores In Operation By Type



APPENDIX

About the Study

This year's report is the result of food marketing companies' participation in several FMI surveys: Retail Operations, General Merchandise/Health and Beauty Aids, Electronic Funds Transfer, Meat Department, Distribution Center Operations, Operations Review, and Facts About Store Development. Members as well as nonmembers were invited to provide company data in many of the surveys. The sample descriptions for the Retail, Distribution Center, General Merchandise/Health and Beauty Aids, and Electronic Funds Transfer questionnaires are presented on the next page. These numbers represent information from approximately 20 percent of the companies invited to participate.

All data shown in this report are median figures, except where noted. Medians provide a better industry average because the figures are not subject to distortion by unusual extremes. This is very important when a few companies differ sharply from the market average.

When measuring real growth in retail sales and productivity, *FMI Speaks* uses the CPI food-at-home index and its annual percentage increase as deflators. To deflate a dollar figure, the CPI food-at-home number is used. For example, to deflate 1985 "sales per square foot" (see page 10) divide the current dollar figure ($8.43) by the 1985 CPI food-at-home index number (296.8), then multiply the total by 100 ($8.43/296.8 × 100 = $2.84 "sales per square foot" in real or deflated dollars). On the other hand, to deflate 1985 "retail sales increase" (page 10), add one to the 1985 current dollar percentage (1 + .05); multiply this by the inverse of the 1985 CPI food-at-home percent change plus one (1/1.014). The deflated number is 3.5%. The table below charts the CPI food-at-home index and percentage increase in the index.

In this report, FMI defines a supermarket as a retail food store with annual sales of at least $2 million. This report is a summary of key findings of the surveys. Readers who have the need for more detailed facts and figures can find the supporting tables for this report in the companion reports entitled *Detailed Tabulations* from the *Food Marketing Industry Speaks, 1986* and in *Facts About Store Development*.

Trends In Operating Results

	1981	1982	1983	1984	1985
Gross Profits with Warehouse	23.0%	23.4%	23.7%	24.1%	24.0%
Gross Profit Without Warehouse	20.9%	21.2%	21.5%	21.6%	22.3%
Sales Per Labor Hour	$89.00	$90.00	$91.00	$90.85	$88.00
Sales Per Square Foot	$ 6.75	$ 7.90	$ 6.95	$ 8.00	$ 8.43
Sales Per Customer Transaction	$14.23	$14.33	$14.60	$15.36	$16.33
Average Hourly Labor Cost*	$ 7.64	$ 7.93	$ 8.12	$ 8.58	$ 8.99
Store Labor Expense	8.5%	8.8%	8.8%	8.9%	8.6%
Fringe Benefit Expense	2.0%	2.1%	2.2%	2.3%	2.9%
Net Profit (before taxes)	1.4%	1.5%	1.3%	1.6%	1.8%

*Excluding fringe benefits

Index For Deflating Annual Supermarket Sales

	CPI Food at Home	% Increase
1981	269.9	7.3
1982	179.2	3.4
1983	282.2	1.1
1984	292.6	3.7
1985	296.8	1.4

Sample Description For Food Marketing Industry Speaks

Retail Operations Questionnaire

(Base) Retail Sales millions	Sample Companies (283)
Under $10	27.2%
$10-$30	19.5%
$31-$100	20.7%
$101-$250	13.0%
$251-$500	8.1%
Over $500	11.4%
	100.0%

EFT Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (354)
Under $10	33.9%
$10-$30	20.6%
$31-$100	15.3%
$101-$250	10.2%
$251-$500	7.3%
Over $500	12.7%
	100.0%

Distribution Center Operations Questionnarie

	Sample Wholesale Companies (41)	Sample Retail Companies (50)
$31-$100	17.1%	4.0%
$101-$250	29.3%	20.0%
$251-$500	17.1%	20.0%
Over $500	36.5%	56.0%
	100.0%	100.0%

GM/HaBA Operations Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies (197)
Under $10	32.9%
$10-$30	16.8%
$31-$100	19.6%
$101-$250	11.2%
$251-$500	7.0%
Over $500	12.6%
	100.0%

Retail Meat Operations Questionnaire

(Base) Company Retail Sales (millions)	Sample Companies 280
Under $10	33.6%
$10-30	19.6%
31-$100	19.6%
$101-$250	9.3%
$251-$500	8.2%
Over $500	10.7%
	100.0%

READER'S COMMENT FORM

Report: The Food Marketing Industry Speaks, 1986

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Page Number	I had trouble with this section because it seemed unclear.	It would have been easier if the following information had been included

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